

PRESIDENT'S ADVISORY
BOARD
ON FEDERAL TAX REFORM

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Gary Bohall
Certified Public Accountant
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Bohall, Hoover & Associates, Inc.
4045 S. Nonchalant Circle
Colorado Springs, CO 80917

The Problem

1. The current tax code is overwhelmingly complicated.
 - a. Regular income tax which contains numerous exceptions and difficult interpretations
 - b. Plus extra rules for passive, active and portfolio types of income
 - c. Plus capital gain criteria'
 - d. And, finally, the dreaded Alternative Minimum Tax.
2. The Code is hard to administer and enforce.
 - a. Too few agents
 - b. Lengthy court battles
 - c. Abuse by taxpayers and enforcers

A Closer Look at the Alternative Minimum Tax

Essentially the income tax is completed in the traditional fashion before the Alternative Minimum Tax is computed.

Basically the income less the deductions allows one to arrive at taxable income which is then applied to the appropriate tax rate from the tax table to arrive at the income tax for the taxpayer.

Sample:

Income	\$200,000.00
Itemized deductions	(30,000.00)
Exemptions for dependents	<u>(12,000.00)</u>
Taxable Income	<u>\$158,000.00</u>
Tax per Table	\$34,567.00

Alternative Minimum Tax (AMT)

Applies a flat 26% less a \$58,000 (married) exemption and limited deductions to arrive at AMT Income x 26%.

If AMT exceeds the prior tax per table, you pay the higher tax.

AMTI	\$200,000.00
Exemption	<u>(58,000.00)</u>
AMTI	\$142,000.00
AMT Rate 28%	<u>x26%</u>
AMT Tax	\$ 36,920.00

Pay AMT tax - \$36,920 since it exceeds \$34,567 income tax.

The Solution - Further Analysis of AMT

AMT is simple! In fact, it is a flat tax and it is already in the code, the rate is just wrong. If you lowered the rate and changed the code to pay the lower of the "income tax" or the "Alternative Minimum Tax" you would have a flat tax with nominal change to the code. The code would not have to be changed otherwise, it would just become obsolete over time.

Merits to the 'new' AMT flat tax

Taxpayers and groups who support the current system of deductions still can maintain their deduction status – therefore there will be less opposition to a change to a flat tax.

It doesn't penalize the individual or corporate taxpayer that has committed previously to a tax strategy based on the old way. The taxpayer may complete that strategy since it may reduce his taxable income below AMT. Eventually, after completion of his strategy the taxpayer gets to choose his future strategies with the new alternative. Because both are allowed, income and new AMT, nobody gets penalized in the change of tax law.

It's simple!

What To Do

1. Don't change the current income tax code. (It will become obsolete over time.)
2. Change the Alternative Minimum Tax to the lower of income tax or (new) AMT. Lower the rate from 26% to 17% - pay the lower amount.
3. Convert the AMT exemption from \$58K to \$36K.

NEW ALTERNATIVE MINIMUM TAX/INCOME TAX

DESCRIPTION RECAP	Regular Income Tax	Old AMT	New AMT
INCOME	40,000	40,000	40,000
Itemized Deductions	(9,700)		
Exemptions	(12,400)		
Standard Exemption	<u>-</u>	<u>(58,000)</u>	<u>(36,000)</u>
Net Taxable Income	<u>17,900</u>	<u>(18,000)</u>	<u>4,000</u>
Tax Rate	Per Table	26%	17%
Income Tax	1,970	-	680
Current Law			
Pay Greater of column 1 or 2	1,970	-	
Revised NEW law			
Pay Lesser of column 1 or 3			680

NEW ALTERNATIVE MINIMUM TAX/INCOME TAX

DESCRIPTION RECAP	Regular Income Tax	Old AMT	New AMT
INCOME	200,000	200,000	200,000
Itemized Deductions	(30,000)		
Exemptions	(12,400)		
Standard Exemption	<u>-</u>	<u>(58,000)</u>	<u>(36,000)</u>
Net Taxable Income	<u>157,600</u>	<u>142,000</u>	<u>164,000</u>
Tax Rate	Per Table	26%	17%
Income Tax	34,567	36,920	27,880
Current Law			
Pay Greater of column 1 or 2		36,920	
Revised NEW law			
Pay Lesser of column 1 or 3			27,880

Federal/State Tax Planner

Date: 11-10-2004

Prepared for

Prepared by BOHALL HOOVER & ASSOC

	2004 A (MFJ)	
INCOME	Fed	
Wages	200,000	
Taxable Interest	0	
Dividends	0	
State Tax Refunds	0	
Alimony Received	0	
Schedule C or F	0	
Capital Gain	0	
4797 Ordinary Gain/Loss	0	
IRA/Pension/Lump Sum Dist.	0	
Schedule E (Non-Passive)	0	
Passive Activities	0	
Taxable Social Security	0	
Unemployment Compensation	0	
Other Income or Losses	0	
TOTAL INCOME	200,000	
ADJUSTMENTS TO INCOME		
Taxpayer IRA	0	
Spouse IRA	0	
Taxpayer Keogh/Sep	0	
Spouse Keogh/Sep	0	
Self Employed Health Ins.	0	
Ded. for Self-Employment Tax	0	
Early Withdrawal Penalty	0	
Alimony Paid	0	
Moving Expenses	0	
Educational Interest	0	
Qualified Higher Education	0	
Other Adjustments	0	
State Adjustments to Fed AGI	N/A	
TOTAL ADJUSTMENTS	0	
ADJUSTED GROSS INCOME	200,000	
ITEMIZED DEDUCTIONS		
Total Medical Expenses	0	
Taxes	20,000	
Interest	5,000	
Charitable Contributions	5,000	
Casualty and Theft	0	
Misc. Ded. Subj to 2% of AGI	0	
Gambling Losses	0	
Other Misc. Deductions	0	
High Income Reduction	1,719	
State Adj. to Fed Item. Ded.	N/A	
TOTAL ITEMIZED DEDUCTIONS	28,281	
STANDARD DEDUCTION	9,700	
TOTAL DEDUCTIONS	28,281	
TAX COMPUTATIONS		
Adjusted Gross Income	200,000	
Total Deductions	28,281	
Exemptions	12,400	
TAXABLE INCOME	159,319	
Tax From Tax Tables/Schedules	34,567	
State Exemption Credits	N/A	
Tax	34,567	
Tax on Lump Sum Dist.	0	
TAX BEFORE CREDITS	34,567	
CREDITS (NONREFUNDABLE)		
Dependent Care Credit	0	
Child Tax Credit *	0	
Educational Credits *	0	
Elective Deferral/IRA Credit *	0	
Other Nonrefundable Credits	0	
TOTAL CREDITS	0	
TAX AFTER CREDITS	34,567	
OTHER TAXES		
Self-Employment Tax	0	
Alternative Minimum Tax	2,353	
Tax on IRA/Qualified Plan Dist.	0	
Other Taxes	0	
TOTAL OTHER TAXES	2,353	
TOTAL TAX	36,920	
PAYMENTS		
Inc. Tax Withheld from Wages	0	
Estimated Tax Payments	0	
Earned Income Credit	0	
Excess Soc. Sec./ Local Tax	0	
Other Taxes Paid In	0	
Refundable Credits	0	
TOTAL PAYMENTS	0	
BALANCE DUE OR REFUND (-)	36,920	
Marginal Tax Rate on Ord. Inc.	28	

* May be limited by AGI and/or AMT.

File Description: Federal/State Tax Planner - (8/31/2004)

Gary Bohall

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Form 6251 - Alternative Minimum Tax Worksheet**Part I Alternative Minimum Taxable Income**

2004 A

1	Federal AGI if you did not itemize (or Fed AGI - Item. Ded.)	171,719
2	Medical and dental expenses	0
3	Taxes. Enter the amount from Schedule A	20,000
4	Home mortgage int. (not used to buy, build or improve)	0
5	Miscellaneous itemized deductions from Schedule A	0
6	If Fed AGI is over limit enter Sch A worksheet, line 9	-1,719
7	Tax refund from Form 1040	0
8	Investment interest expense	0
9	Depletion	0
10	Net operating loss deduction from Form 1040	0
11	Exempt interest from specified private activity bonds	0
12	Qual. small business stock (excl. amt. under Sect. 1202)	0
13	Exercise of incentive stock options	0
14	Estates and trusts (amount from K-1)	0
15	Electing large partnerships (amount from K-1)	0
16	Disposition of property	0
17	Depreciation on assets placed in service >1986	0
18	Passive activities	0
19	Loss limitations	0
20	Circulation costs	0
21	Long-term contracts	0
22	Mining costs	0
23	Research and experimental costs	0
24	Income from certain installment sales before Jan. 1, 1987	0
25	Intangible drilling costs	0
26	Other adjustments	0
27	Alternative tax net operating loss deduction	0
28	Alternative minimum taxable income (MFS see instructions)	190,000

Part II Alternative Minimum Tax

29	Exemption Amount.	
a	Enter the base exemption amount	58,000
b	Enter the exemption amount phase-out threshold	150,000
c	Subtract ln 29b from ln 28. If <0, enter 0.	40,000
d	Multiply ln 29c by .25% (.25)	10,000
e	Subtract ln 29d from 29a. If <0, enter 0	48,000
30	Subtract ln 29e from ln 28. If ZERO or less, enter -0- here and on lines 33 and 35	142,000
31	If you reported qual. dividends or there is a gain on Sch D line 16 and 17a then complete Part III and enter the amount here	
	OTHERWISE	
a.	Multiply the portion of ln 30 (less cap gains) that is less than \$175,000 (or \$87,500 if MFS) by 26% (.26)	36,920
b	Multiply any excess by 28% (.28)	0
	Add 31a and 31b	36,920
32	Alternative minimum tax foreign tax credit	0
33	Tentative minimum tax. Subtract ln 32 from ln 31	36,920
34 a	Enter tax from Form 1040	34,567
b	Foreign tax credit from Form 1040	0
c	Subtract 34b from 34a	34,567
35	Alternative Minimum Tax. Subtract ln 34c from ln 33.	
	If <0, enter -0-. Enter here and on Form 1040	2,353